MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018 SESSION

BAC1634 – FINANCIAL ACCOUNTING & REPORTING I

(All sections / Groups)

8th MARCH 2018
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

a) Explain the due process in the issuance of Malaysian Accounting Standards Board (MASB) standards.

(5 marks)

b) Discuss the importance of going concern to the preparers when they prepare the financial statements at the end of accounting period. Provide an example in your explanation.

(5 marks)

c) Explain the difference between the conceptual framework and financial reporting standards and how are they related?

(10 marks)

(Total: 20 Marks)

QUESTION 2

Part A

The following financial statements was extracted from the book of Macro Bhd at 30 June 2017:

Macro Bhd
Profit or Loss Account for the Year Ended 30 June 2017

	RM'000
Revenue	74,000
Cost of sales	(28,000)
Expenses	(20,000)
Investment income	1,000
Tax paid	(4,000)
Dividends paid on ordinary shares	(4,000)
Dividends paid on redeemable preference shares	(300)
Profit after tax	18,700

Continued...

Macro Bhd
Balance Sheet as at 30 June 2017

	RM'000
Property, plant and equipment	88,000
Current assets	30,000
	118,000
Share capital	30,000
Share premium	20,000
5% Redeemable preference shares	6,000
Retained profit	24,000
Liabilities	38,000
	118,000

Additional information:

- Non-current assets comprise property of RM64,000,000, plant of RM20,000,000 and equipment of RM4,000,000.
- Revenue includes the proceeds from the sale of plant of RM2,000,000 and revaluation surplus of property of RM4,000,000. The carrying amount of the plant disposed is RM1,000,000 which is included in cost of sales.
- Depreciation is charged in cost of sales.
- Current assets comprise trades receivables of RM10,000,000, cash at bank of RM9,200,000 and inventory of RM10,8000,000 inclusive of obsolete inventory of RM1,600,000. The obsolete inventory is recorded in the cost of sales.
- Share capital comprises 30,000,000 ordinary shares.
- The redeemable preference shares were issued on 1 July 2016 and are redeemable at a premium of 14 percent. The effective dividend rate is 8 percent.
- Liabilities comprise non-current liabilities of loan stock of RM32,000,000 and trade payable.
- Expenses comprise:

	RM'000
Administrative expenses	4,800
Selling and distribution expenses	10,200
Directors' emoluments	2,400
Auditors' fees	1,000
Interest on loan	1,600

- Tax expense for the year is RM4,200,000.

Continued...

Required:

You are required to redraft in accordance with MFRS 101 *Presentation of Financial Statements*:

a) Statement of profit or loss and other comprehensive income for Macro Bhd for the year ended 30 June 2017.

(7 marks)

b) Statement of financial position for Macro Bhd as at 30 June 2017.

(9 marks)

Part B

A new partner has joined the business during the year and has paid in RM100,000 for 'Goodwill'. This RM100,000 has been credited by the bookkeeper to the account of the new partner. The senior partner had objected to this, but the bookkeeper had replied: 'Why not credit the RM100,000 to the account of the new partner? It is his money after all.'

Required:

Give your advice as to the proper treatment of this RM100,000. Explain your reasons fully.

(4 marks)

(Total: 20 marks)

QUESTION 3

Part A

On 1 January 2016, Eco Bhd had in issue 3,000,000 ordinary shares amounting to RM8,000,000 and 2,000,000 8% preference shares amounting to RM2,000,000. It also had in issue 1,500,000 warrants each of which entitles the holder to one ordinary share at RM6. The holders may exercise their rights on or before 31 December 2020.

On 1 April 2017, Eco Bhd made a right issue of one new share for each five existing ordinary shares at an exercise price of RM4.60. The fair value immediately prior to the right issue was RM6.40. The average market price of ordinary share during the year was RM6.60.

The profits after tax of Eco Bhd for the years ended 31 December 2016 and 2017 are RM5,920,000 and RM7,400,000 respectively.

Continued...

Required:

In compliance with MFRS133: *Earnings per share,* Calculate for Eco Bhd:

a) the basic EPS for 2016 (including restated EPS) and 2017. (6 marks)

b) the diluted EPS for 2017. (2 marks)

Part B

Tajam Bhd has a subsidiary meeting the criteria of MFRS 5 to be classified as held for sale. This subsidiary has a disposal group held for sale with the following details:

	RM
Goodwill	40,800
Property, plant and equipment	112,000
Intangible assets	64,000
Investment property	33,960
Carrying amount of the disposal group	250,760

The following information are relevant to the disposal group:

- The investment property is measured by using the fair value model, and its fair value is RM30,000 at the date of the disposal group being reclassified as held for sale under MFRS 5.
- Other assets have already been re-measured in accordance with the applicable accounting standards before the reclassification as held for sale.
- The fair value less costs to sell of the disposal group is RM200,000.

Required:

Evaluate the financial implication of the reclassification of the disposal group as held for sale. (8 marks)

Continued...

Part C

Determine whether the below events are adjusting or non-adjusting, and the amount of provision, if any, to be recognised in statement of financial position as at 31 December 2017 in accordance with MFRS110 *Events after the Reporting Period.*

a) Toy Bhd is principally engaged in the manufacture of children's toys. One of its popular and best-selling products is called Captain America Robot. The company was facing a lawsuit in relation to a fatal accident involving Captain America Robot when the management was preparing the financial statements for the year ended 31 December 2017. Mr. Steven was claiming RM5 million compensation from Toy Bhd on the grounds that his only son was suffocated to death by a small plastic part of Captain America Robot that was accidentally "eaten" by his son.

   A few days before the directors authorized the 2017 financial statements for issue, the judge made a decision on the case. As a result of the court decision, Toy Bhd had to pay compensation of RM3 million to Mr. Steven.

   (2 marks)

b) Jimat Bhd is reviewing certain events that occurred since its year-end of 31 December 2017. The financial statements were authorised for issue on 10 March 2018. They found that a major customer, Janji Bhd declared bankruptcy on 14 January 2018. Outstanding trade receivable from Janji Bhd is material and was in the amount of RM1 million as at 31 December 2017. No provision has been made, as Janji Bhd maintained a very good track record of payment and the amount owing is not overdue. Now, it is very unlikely that Jimat Bhd will recover anything from Janji Bhd since Jimat Bhd is only a general creditor of Janji Bhd.

   (2 marks)

Part D

On 2 January 2016, Alibaba Bhd signed a five year lease up to 31 December 2020 to use an electronic plant to be installed in its factory with an annual payment of RM50,000.

Alibaba paid the initial annual payment on 2 January 2016 to the lessor, CP & Co., which agreed to deliver and install the plant by 10 January 2016. Five remaining annual lease payments would be made at the end of each year beginning from 31 December 2016.

Alibaba also committed a guarantee to CP & Co. that the leased plant should have a value not less than RM60,000 at the end of the lease. The interest rate implicit in the lease of Alibaba Bhd is 8%.

Continued...

Alibaba Bhd estimated that the fair value of the leased plant was around RM300,000. CP & Co. finally delivered and installed the plant as scheduled by 10 January 2016. Alibaba estimated that the useful life of the leased plant was around six years.

Required:

a) Discuss the accounting implication whether the transaction can be classified as finance lease or operating lease in accordance with MFRS117 *Leases*. Justify your answer. (5 marks)

b) Prepare the journal entries of Alibaba at initial recognition. (Assume the effect between 2 January 2016 and 10 January 2016 as being insignificant.)

(5 marks)

(Total: 30 Marks)

QUESTION 4

Part A

On 1 January 2018, Xpress Bhd sold goods to Putra Bhd at a quoted price of RM75,000 with a credit term of nil/90, net 120. A trade discount of 10% is given to Putra Bhd due to large quantity of purchase. Putra Bhd returned some faulty goods amounting to RM3,500. Putra Bhd settle the credit on 28 February 2018.

Required:

a) Explain how Xpress Bhd should recognize Putra Bhd, a trade receivable, in accordance with MFRS139: Financial Instrument: Recognition and Measurement.

(2 marks)

b) How should Xpress Bhd record the trade receivable as an initial measurement?

(2 marks)

c) Prepare the journal entries to record the above transaction.

(6 marks)

Continued...

Part B

Saffron Bhd has prepared the following schedule for property, plant and equipment as at 31 December 2017.

Land		RM4,500,000
Building	RM39,750,000	
Less: Accumulated depreciation	18,150,000	21,600,000
Equipment	60,000,000	
Less: Accumulated depreciation	7,500,000	52,500,000
Total Carrying Amount		RM78,600,000

During 2018, Saffron Bhd had incurred the following transactions:

April 1	Saffron Bhd purchased a piece of land in Nilai for RM3,300,000 to build a new warehouse.
May 1	The company sold equipment that was purchased on January 1, 2014 for RM540,000. The cost of the equipment was RM900,000.
June 1	The land that was purchased for RM900,000 on June 1, 2008 has been sold for RM2,700,000.
July 1	The company purchase another equipment for RM2,400,000 to increase the production in 2018.

Saffron Bhd uses straight-line depreciation for building and equipment. The building is estimated to have 50-year useful life and no residual value. The equipment is estimated to have a 10-year useful life and no residual value.

Required:

a) Show the journal entries for the above transactions.

(12 marks)

b) Prepare the presentation of the property, plant and equipment in statement of financial position of Saffron Bhd as at 31 December 2018.

(4 marks)

c) Explain the two methods allowed by MFRS116 for subsequent measurement of property, plant and equipment.

(4 marks)

(Total : 30 marks)

End of Page